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Message Text

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ACTION EB-07

INFO OCT-01 AF-08 EUR-12 ISO-00 FEA-01 SS-15 INT-05 FPC-01

TRSE-00 OMB-01 CIAE-00 INR-07 NSAE-00 /058 W
---------- 067712
R 181400Z MAY 76
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC 4949
USDOC WASHDC
INFO AMEMBASSY LONDON

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E.O. 11652: N/A
TAGS: BENC, ENRG, NI
SUBJECT: PETROLEUM SECTOR MAJOR PROJECT FOLLOWUP: PETROCHEMICALS AND FERTILIZERS

REF: (A) LAGOS 12834 DEC. 30, 1975, (B) STATE 289056

1. EMBOFF HAS MET WITH DR. A. J. OYEKAN, MINISTRY OF INDUSTRIES (MOI) OFFICIAL IN CHARGE OF PETROCHEMICAL COMPLEX AND FERTILIZERS, AT LEAST ONCE A MONTH SINCE FEBRUARY. HOWEVER, SINCE REFTEL (A) THERE HAS BEEN VERY LITTLE FORWARD PROGRESS ON PETROCHEMICAL COMPLEX.

2. STRUGGLE WITH MINISTRY OF PETROLEUM AND ENERGY (MPE) OVER WHETHER MOI WOULD SET UP OWN INDEPENDENT ASSOCIATED GAS GATHERING SYSTEM IN ORDER GET MOVING WITH PROJECT, OR WOULD HAVE TO WAIT FOR COMPLETION OF NATIONAL GAS GATHERING GRID WHICH WILL FEED LNG PLANTS AND OTHER INDUSTRIES, HAS BEEN RESOLVED IN FAVOR OF MPE. IF ANYTHING, THIS WILL DELAY PROGRESS ON PETROCHEMICALS.

3. FMG CONSULTANT CHEM SYSTEMS IN LONDON WAS DUE TO REPORT FINDINGS ON PROSPECTIVE JOINT VENTURE OPERATING PARTNERS BY APRIL, BUT SO FAR HAS NOT DONE SO. BF GOODRICH STILL FAVORED BY MOI, BUT HAS WRITTEN MOI SAYING IT BELIEVES RECESSION PLUS REQUIREMENTS INVEST IN COSTLY POLLUTION CONTROL EQUIPMENT FOR U.S. FACTORIES
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MAKE IT UNCERTAIN WHETHER BFG CAN SPARE THE EQUITY INVESTMENT

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WHICH MOI WANTS (ABOUT DOLLARS 70 MILLION). MOI HAS RESPONDED DELICATELY THAT IT UNDERSTANDS CHEMICAL BUSINESS IS CYCLICAL AND HOPES THAT BY TIME INVESTMENT IS NEEDED BFG WILL BE IN BETTER POSITION TO AFFORD IT.

4. EMBASSY BELIEVES BFG AND ANY OTHER POTENTIAL JOINT VENTURE PARTNERS WILL BE HIGHLY RELUCTANT TO COMMIT LARGE EQUITY INVESTMENT UNTIL FMG RESOLVES QUESTION OF GAS OWNERSHIP WITH THE OIL COMPANIES. SAME PROBLEM IS ONE OF OBSTACLES TO PROGRESS ON LNG. HERCULES, ONCE PROSPECTIVE PARTNER, WANTED MAKE IT EQUITY CONTRIBUTION IN FORM OF CAPITALIZED TECHNOLOGY INSTEAD OF CASH, DROPPED OUT WHEN MOI SAID CASH NECESSARY.

5. AFTER GAS OWNERSHIP SETTLED, PARTNERS WILL ALSO WANT TO SEE DEFINITE TIMETABLE FOR COMPLETION OF NATIONAL GAS GATHERING GRID THAT WILL SUPPLY PETROCHEMICAL COMPLEX, AND WILL NEED DEFINITE GAS PRICE FROM FMG BEFORE THEY CAN MAKE ANY REALISTIC CALCULATIONS. AS NOTED REFTEL (A), CONSULTANT CHEM SYSTEMS SAID OPERATING PARTNER, ONCE CHOSEN, WILL HAVE IMPORTANT ROLE IN DEFINING ECONOMICS AND DESIGN SPECS OF PETROCHEMICAL COMPLEX. THUS, IT WILL BE SOME TIME BEFORE DESIGN, ENGINEERING AND CONSTRUCTION COMPANIES OR EQUIPMENT MANUFACTURERS WILL HAVE ANYTHING FIRM TO WORK WITH.

6. FERTILIZER PROJECT A BIT MORE ADVANCED. FMG CONSULTANT SCIENTIFIC DESIGN HAS ALREADY SUBMITTED A SHORT LIST OF RECOMMENDED INTERESTED PARTNERS. ONLY U.S. FIRM STILL IN RUNNING IS AGRICO, A SUBSIDIARY OF WILLIAMS INTERNATIONAL. OTHER U.S. CONTENDER, OMNIFORM, SUBSIDIARY OF W. R. GRACE, DROPPED OUT. ALTHOUGH OYEKAN WOULD LIKE TO MOVE FASTER, HE EXPECTS SELECTION OF OPERATING PARTNER WILL NOT BE MADE UNTIL END OF 1976. TENDERS FOR DESIGN AND CONSTRUCTION COULD BE ISSUED SOON THEREAFTER, WITH CONSTRUCTION TO BEGIN AROUND MID-1977 AND BE COMPLETED AROUND MID-1979. CAPACITY OF FERTILIZER PLANT WILL NOT BE DETERMINED UNTIL OPERATING PARTNER MAKES DECISION. OYEKAN SAID THERE MAY BE TWO PLANTS, ONE AT PORT HARCOURT AND ONE AT WARRI. HE ADDED MUCH OF PRODUCTION WILL HAVE TO BE EXPORTED DURING FIRST FEW YEARS UNTIL DOMESTIC DEMAND CATCHES UP. (THIS MAY BE ADDITIONAL DISINCENTIVE FOR OPERATING PARTNER CONSIDERING POSSIBILITY THAT EXPORT-ORIENTED EXPANSION PLANS IN OTHER NATURAL GAS PRODUCING COUNTRIES MIGHT
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CREATE OVER-SUPPLY. SEE ANALYSIS OF WORLD FERTILIZER SITUATION IN INR NOTE 401, APRIL 14, 1976.)

7. OYEKAN TOLD EMBOFF COST-PLUS BIDS WOULD PROBABLY BE ACCEPTABLE ON PETROCHEMICAL AND FERTILIZER PROJECTS PROVIDED OPERATING PARTNER COULD HELP MOI TO MONITOR THEM.

8. RE NIGERGAS METHANOL PROPOSAL (SEE REFTELS), WHICH CHEM

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SYSTEMS DISCOURAGED, EMBASSY NOTED WITH INTEREST STRONG PLUG DEPUTY SECRETARY ROBINSON MADE TO NIGERIAN AMBASSADOR SANU ABOUT ADVISABILITY OF NIGERIA PRODUCING METHANOL AND USING RESULTANT HYDROGEN IN ITS DIRECT REDUCTION STEEL MILLS. EMBOFF WROTE CHEM SYSTEMS MANAGING DIRECTOR MARCH 23 CONVEYING ROBINSON'S ARGUMENTS IN FAVOR OF METHANOL AND ASKED FOR REACTION, BUT SO FAR HAS RECEIVED NO RESPONSE.
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